

U.S.

Weekly Watch

January 24, 2011

Highlights

Economic Analysis

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Existing home sales jumped 12.3% in December

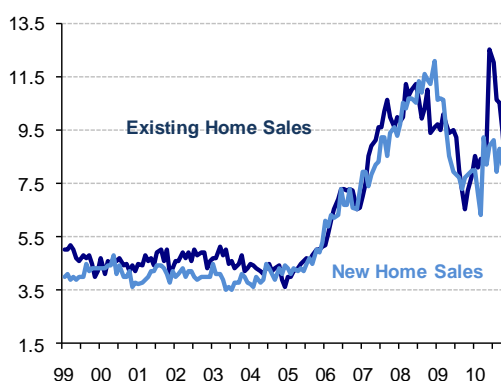
Sales of existing homes increased significantly in December, marking the fifth month of gains in the past six months, according to the National Association of Realtors (NAR). Sales of previously-owned homes climbed 12.3% in December to an annual rate of 5.28mn, from 4.70mn in November. The rate was down 2.9% from 12 months earlier. The inventory of homes on the market fell 4.2% in December to 3.56mn units, the lowest level since the first month of the year. Buyers are returning to the housing market after a government tax credit expired in the middle of 2010, indicating the drop in prices and cheap lending rates are making homes more affordable. Better employment expectations and higher economic growth than expected is helping housing demand to return to the market. The improvement in the existing home sales suggests that the housing market recovery is ongoing.

FSOC released its report on implementation of the Volcker Rule

The Financial Stability Oversight Council (FSOC) unveiled its report on implementation of the Volcker Rule. The study formally starts the clock for regulators' rule-writing. The study does not identify specific metrics for use and includes few specifics or clarified the meaning of enacted laws. The main impression to gather from FSOC's report is that regulators continue to struggle with specific implementation targets for the Dodd-Frank Act and that much will rely on regulators' judgment, something not necessarily conducive to clearly-defined compliance regimes. The FSOC study's generality implies that no single test will determine the scope of market-making or proprietary trading. Regulators made clear, however, that they did want to preserve the ability of banks to engage in market-making and flexibility must be maintained. Furthermore, FSOC found that, as of the present time, the Dodd-Frank Act which prohibits any financial company from having more than 10% of the aggregate liabilities of the entire US financial system only applies in the short-term to four firms: Citigroup, Wells Fargo, Bank of America, and JP Morgan Chase. However, in the long-term the FSOC believes the rule will avoid unreasonably complex firms and foster competition in the financial system. The council of regulators also believes that while this rule alone cannot eliminate systemic risk, its use in conjunction with other prudential regulation standards will be useful.

Graph 1

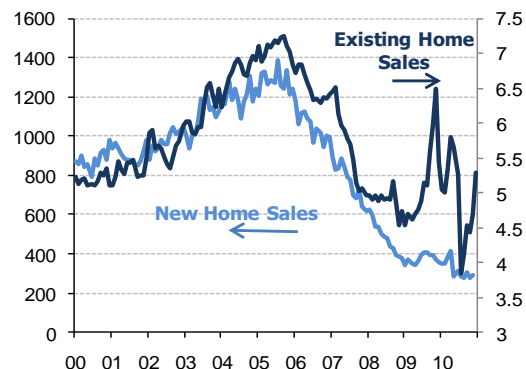
Monthly Supply of Homes (Months)



Source: NAR and U.S. Census Bureau

Graph 2

Home Sales (YoY % change)



Source: NAR and U.S. Census Bureau

Week Ahead

Case-Shiller 20-city Index (November, Tuesday 09:00 ET)

Forecast: -0.7%	Consensus: -1.7%	Previous: -0.80%
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In November, home prices are expected to slip for the second month in a row, following eight months of rises. The existing home prices 20-city index will depreciate 0.7% year-over-year. Nevertheless, it is not the indication of another downward trend because existing housing demand improved significantly in the last quarter of the year. Home prices are currently at favorable levels for consumers and attractive affordability ratios will play a role in attracting demand and reducing inventories of existing homes.

FOMC Rate Decision (January, Wednesday 14:15 ET)

Forecast: 0.25%	Consensus: 0.25%	Previous: 0.25%
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Minutes of the last FOMC meeting held on December 14, 2010 and recent speeches by FOMC members indicate that most of the voting members in FOMC believe the U.S. economy is growing at a moderate pace, but the unemployment rate will remain elevated in coming quarters. FOMC members expect that the inflation rate will continue to be below the level consistent with price stability and maximum employment, although the risk of deflation has receded somewhat. We expect that the Fed will leave the federal funds target rate unchanged and continue its current LSAP program until its scheduled completion at the end of 2Q11. However, the Fed will continue to monitor economic conditions and over the course of the following meetings the Fed will begin to consider how to craft a communication strategy for either the end or the continuation of the LSAP program.

Durable Goods Orders (December, Thursday 08:30 ET)

Forecast: 1.1%	Consensus: 1.5%	Previous: -0.3%
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According to the Census Bureau's latest estimates, durable goods orders dropped by 0.3% in November after falling 3.1% in the previous month. Durable goods orders increased 0.9% per month on average in the last 11 months. New orders excluding transportation jumped 3.6% in November. Excluding defense, new orders declined 1.3%. We expect durable goods orders to increase by 1.1% in December.

Gross Domestic Product, Advanced (4Q10, Friday 08:30 ET)

Forecast: 3.3%	Consensus: 3.5%	Previous: 2.6%
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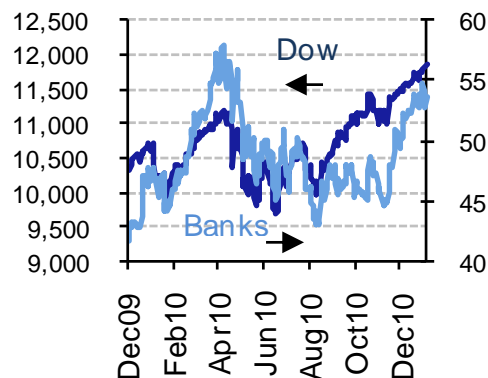
4Q10 GDP growth is expected to be stronger than previously expected, primarily due to consumer spending and exports, which are picking up faster than anticipated. In the last three months, macroeconomic indicators, such as retail sales and exports, point to an increase in economic activity. Therefore, we expect stronger economic growth in 4Q10 than our baseline scenario. Our short-term models indicate a quarterly annualized growth rate of 3.3% in 4Q10. If this is the case, it would mean that the U.S. economy grew 2.9% in 2010, slightly above our baseline scenario of 2.8%.

Market Impact

This week markets' attention will be on the FOMC meeting and 4Q10 GDP estimates. If the Fed hints or announces a change in its current monetary policy, interest rates will quickly react to the news. Moreover, stronger than expected economic growth in 4Q10 might increase optimism in the financial markets.

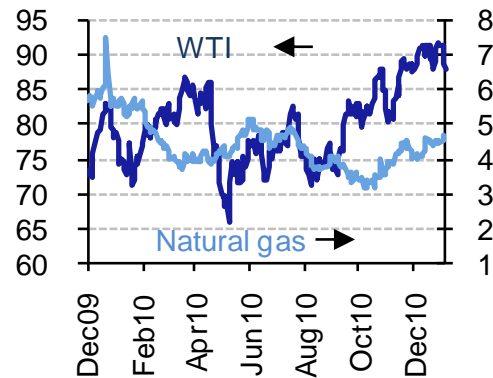
Financial Markets

Graph 3
Stocks (Index, KBW)



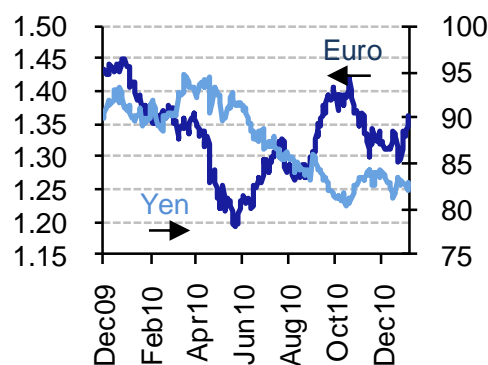
Source: Bloomberg & BBVA Research

Graph 4
Commodities (Dpb & DpMMBtu)



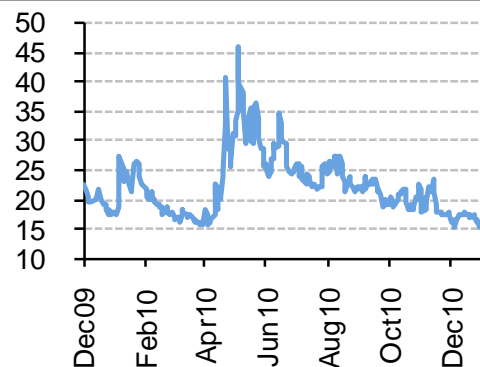
Source: Bloomberg & BBVA Research

Graph 5
Currencies (Dpe & Ypd)



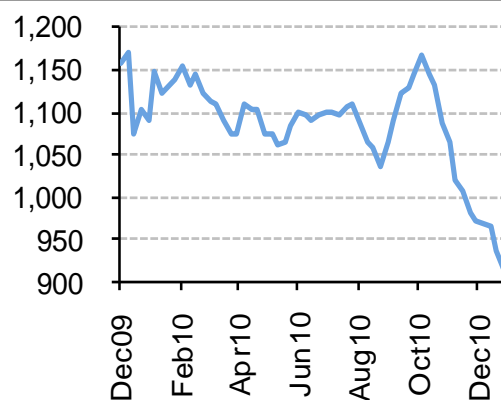
Source: Bloomberg & BBVA Research

Graph 6
Volatility (Vix, Index)



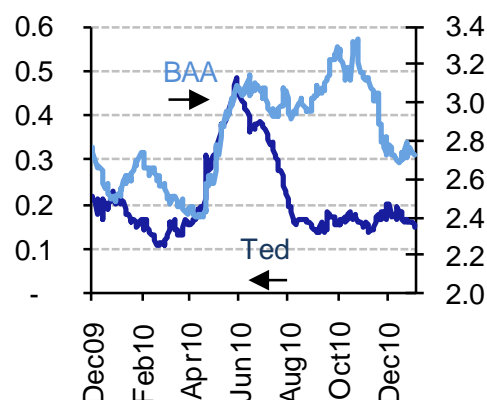
Source: Bloomberg & BBVA Research

Graph 7
Commercial Paper Issuance (US\$Bn)



Source: Bloomberg & BBVA Research

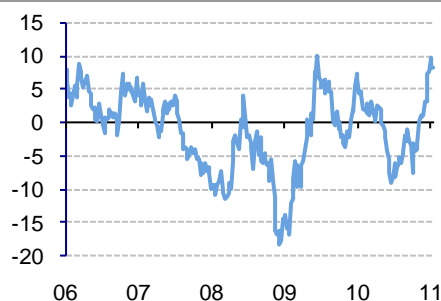
Graph 8
TED & BAA Spreads (%)



Source: Bloomberg & BBVA Research

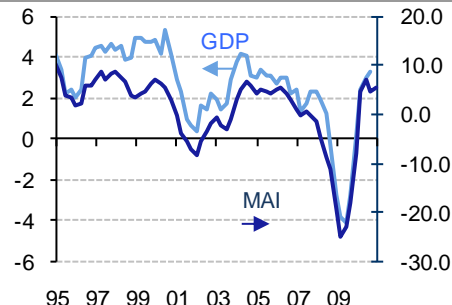
Economic Trends

Graph 9
**BBVA US Weekly Activity Index
 (3 month % change)**



Source: BBVA Research

Graph 10
**BBVA US Monthly Activity Index & Real
 Gross Domestic Product
 (4Q % change)**



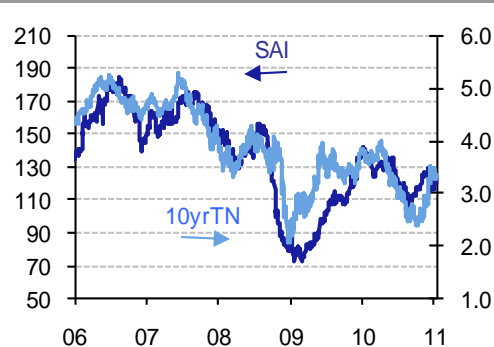
Source: BBVA Research & BEA

Graph 11
**BBVA US Surprise Inflation Index
 (Index 2009=100)**



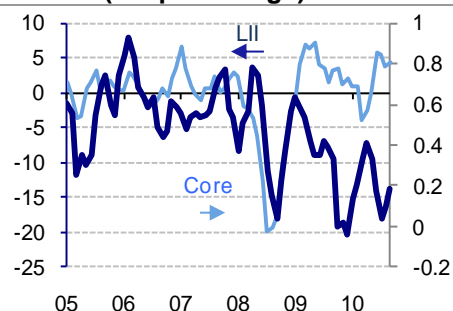
Source: BBVA Research

Graph 12
**BBVA US Surprise Activity Index & 10-yr
 Treasury (Index 2009=100 & %)**



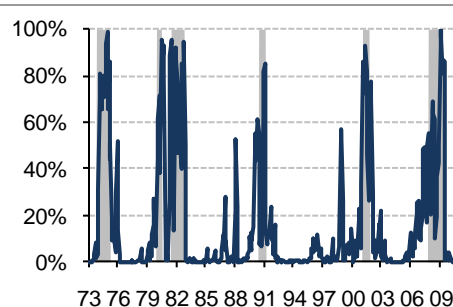
Source: Bloomberg & BBVA Research

Graph 13
**BBVA US Leading Inflation Index & Core
 Inflation (QoQ % change)**



Source: BLS & BBVA Research

Graph 14
**BBVA US Recession Probability Model
 (Recession episodes in shaded areas, %)**



Source: BBVA Research

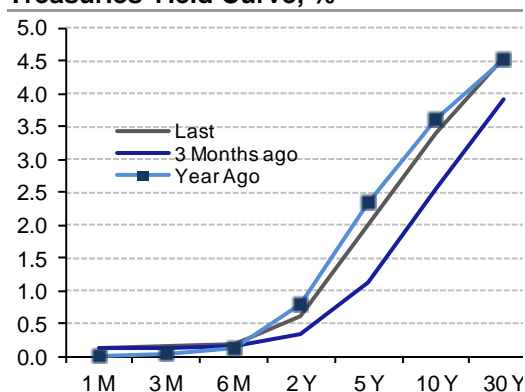
Yield Curve and Interest Rates

Table 1
Key Interest Rates, %

	Last	Week ago	4-Weeks ago	Year ago
Prime Rate	3.25	3.25	3.25	3.25
Credit Card (variable)	13.68	13.68	13.68	11.74
New Auto (36-months)	5.10	5.09	5.35	6.43
Heloc Loan 30K	5.56	5.55	5.49	5.70
30-year Fixed Mortgage *	4.74	4.71	4.81	4.99
Money Market	0.71	0.71	0.71	0.89
2-year CD	1.31	1.31	1.23	1.79
5-year CD	2.07	2.06	2.06	2.70

* Freddie Mac National Mortgage Homeowner Commitment 30 Year US
Source: Bloomberg and BBVA Research

Graph 15
Treasuries Yield Curve, %



Source: Bloomberg

Quote of the Week

Federal Reserve Bank of Philadelphia President Charles Plosser
January 17, 2011

The Scope and Responsibilities of Monetary Policy

The Central Bank of Chile

Santiago, Chile

"I too am concerned that we are in the process of assigning to monetary policy goals that it cannot hope to achieve. Monetary policy is not going to be able to speed up the adjustments in labor markets or prevent asset bubbles, and attempts to do so may create more instability, not less."

Economic Calendar

Date	Event	Period	Forecast	Survey	Previous
25-Jan	S&P/CS 20 City MoM% SA	NOV	0.4%	-1.0%	-1.0%
25-Jan	S&P/CS Composite-20 YoY	NOV	-0.7%	-1.7%	-0.8%
25-Jan	Consumer Confidence	JAN	54.0	54.2	52.5
25-Jan	House Price Index MoM	NOV	0.2%	0.0%	0.7%
25-Jan	Richmond Fed Manufact. Index	JAN	22.0	23.0	25.0
26-Jan	New Home Sales	DEC	310K	300K	290K
26-Jan	New Home Sales MoM	DEC	6.9%	3.5%	5.5%
26-Jan	FOMC Rate Decision	26-Jan	0.25%	0.25%	0.25%
27-Jan	Chicago Fed Nat Activity Index	DEC	0.0	0.1	-0.5
27-Jan	Durable Goods Orders	DEC	1.1%	1.5%	-0.3%
27-Jan	Durables Ex Transportation	DEC	0.8%	1.0%	3.6%
27-Jan	Cap Goods Orders Nondef Ex Air	DEC	1.0%	1.3%	2.6%
27-Jan	Initial Jobless Claims	22-Jan	412K	409K	404K
27-Jan	Continuing Claims	15-Jan	3860K	3880K	3861K
27-Jan	Pending Home Sales MoM	DEC	3.6%	1.0%	3.5%
27-Jan	Pending Home Sales YoY	DEC	-2.4%	-	-2.4%
28-Jan	Employment Cost Index	4Q	0.4%	0.5%	0.4%
28-Jan	GDP QoQ (Annualized)	4Q A	3.3%	3.5%	2.6%
28-Jan	GDP Price Index	4Q A	1.6%	1.7%	2.1%
28-Jan	Core PCE QoQ	4Q A	0.4%	0.4%	0.5%
28-Jan	Personal Consumption	4Q A	3.8%	4.0%	2.4%
28-Jan	U. of Michigan Confidence	JAN F	73.5	73.0	72.7

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